

**MORLEY STANWOOD COMMUNITY SCHOOLS**

**ANNUAL FINANCIAL REPORT**

**(with required supplementary and additional information)**

**JUNE 30, 2006**

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

July 17, 2006

## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Morley Stanwood Community Schools  
Morley, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Morley Stanwood Community Schools, Morley, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Morley Stanwood Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morley Stanwood Community Schools, Morley, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2006, on our consideration of Morley Stanwood Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morley Stanwood Community Schools, Morley, Michigan basic financial statements. The combining and individual fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Morley Stanwood Community Schools, a K-12 school district located in Montcalm, Mecosta and Newaygo Counties, Michigan has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Morley Stanwood Community Schools administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

**A. Fund Financial Statements**

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds which include Special Revenue Funds and Debt Service Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

**B. Government-wide Financial Statements**

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**C. Summary of Net Assets**

The following schedule summarizes the net assets at fiscal year ended June 30:

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current Assets	\$ 2,924,052	\$ 3,852,496
Non Current Assets		
Capital Assets	\$ 25,320,357	\$ 25,020,313
Less Accumulated Depreciation	<u>(9,449,800)</u>	<u>(8,860,422)</u>
 Total Non Current Assets	 <u>\$ 15,870,557</u>	 <u>\$ 16,159,891</u>
 Total Assets	 <u><u>\$ 18,794,609</u></u>	 <u><u>\$ 20,012,387</u></u>
 <b>Liabilities</b>		
Current Liabilities	\$ 2,179,219	\$ 2,033,137
Non Current Liabilities	<u>13,022,101</u>	<u>14,024,467</u>
 Total Liabilities	 <u>\$ 15,201,320</u>	 <u>\$ 16,057,604</u>
 <b>Net Assets</b>		
Invested in Capital Assets Net of Related Debt	\$ 2,429,662	\$ 1,954,789
Restricted for Debt Service	180,027	111,997
Unrestricted	<u>983,600</u>	<u>1,887,997</u>
 Total Net Assets	 <u>\$ 3,593,289</u>	 <u>\$ 3,954,783</u>
 Total Liabilities and Net Assets	 <u><u>\$ 18,794,609</u></u>	 <u><u>\$ 20,012,387</u></u>

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2006, the District's net assets decreased by \$361,494. A few of the more significant factors affecting net assets during the year are discussed below:

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**1. Depreciation Expense**

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$673,284 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2006, \$393,708 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$279,576 for the fiscal year ended June 30, 2006.

**E. Results of Operations**

For the fiscal year ended June 30, the results of operations, on a District-wide basis, were:

	2006		2005	
	Amount	% of Total	Amount	% of Total
<b>General Revenues</b>				
Property Taxes	\$ 2,769,095	18.33 %	\$ 2,677,785	18.25 %
Investment Earnings	57,386	0.38 %	31,527	0.21 %
State Sources	9,679,056	64.10 %	9,373,682	63.89 %
Other	95,875	0.64 %	156,584	1.07 %
Total General Revenues	<u>\$12,601,412</u>	<u>83.45 %</u>	<u>\$12,239,578</u>	<u>83.42 %</u>
<b>Program Revenues</b>				
Charges for Services	\$ 321,895	2.13 %	\$ 302,493	2.06 %
Operating Grants	<u>2,177,177</u>	<u>14.42 %</u>	<u>2,128,285</u>	<u>14.52 %</u>
Total Program Revenues	<u>\$ 2,499,072</u>	<u>16.55 %</u>	<u>\$ 2,430,778</u>	<u>16.58 %</u>
Total Revenues	<u>\$15,100,484</u>	<u>100.00 %</u>	<u>\$14,670,356</u>	<u>100.00 %</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**Expenses**

Instruction	\$ 8,523,714	55.13 %	\$ 8,186,526	54.29 %
Supporting Services	4,752,985	30.74 %	4,357,462	28.90 %
Food Service Activities	614,861	3.98 %	577,662	3.83 %
Athletic Activities	80,235	0.52 %	89,067	0.59 %
School Operated Public Library	75,386	0.49 %	69,748	0.46 %
Community Services	3,886	0.03 %	0	0.00 %
Interest on Long-Term Debt	679,583	4.39 %	713,368	4.73 %
Other Transactions	58,044	0.37 %	402,864	2.67 %
Unallocated Depreciation	673,284	4.35 %	681,626	4.53 %
Total Expenses	<u>\$15,461,978</u>	<u>100.00 %</u>	<u>\$15,078,323</u>	<u>100.00 %</u>
Changes in Net Assets	<u>\$ (361,494)</u>		<u>\$ (407,967)</u>	

**F. Analysis of Significant Revenues and Expenses**

Significant revenues and expenditures are discussed in the segments below:

**1. Property Taxes**

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the District levied \$1,293,978 in non-homestead property taxes. This represented an increase of 3.16% from the prior year. The amount of unpaid property taxes at June 30, 2006, was \$5,905.

The following table summarizes the general fund non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-Homestead Tax Levy
2005-2006	1,293,978
2004-2005	1,254,395
2003-2004	1,155,825
2002-2003	1,105,398
2001-2002	1,038,174

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**2. State Sources**

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of 75% of the current year's fall count and 25% of the prior year's spring count. For the 2005-2006 fiscal year, the District received \$6,875 per student FTE.

**3. Student Enrollment**

The following schedule summarizes the blended student enrollment for the past five fiscal years:

Fiscal Year	Blended Student FTE
2005-2006	1,642
2004-2005	1,635
2003-2004	1,625
2002-2003	1,603
2001-2002	1,579

**4. Operating Grants**

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state, and other grants of this type were \$2,177,177.

**G. General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2005-2006 fiscal year, the District amended the general fund budget in January and June 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 12,532,907	\$ 12,853,719	\$ 12,831,278
<u>EXPENDITURES</u>			
Instruction	\$ 8,448,702	\$ 8,662,952	\$ 8,660,291
Supporting Services	4,728,503	4,937,611	4,906,623
Community Services	0	5,016	3,886
Other Transactions	295,000	63,200	58,044
Total Expenditures	\$ 13,472,205	\$ 13,668,779	\$ 13,628,844

The total revenues variance was only \$22,441 and the total expenditures variance was \$39,935.

## **H. Capital Asset and Debt Administration**

### **1. Capital Assets**

At June 30, 2006, the District has \$25,320,357 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$309,802 over the prior fiscal year. Depreciation expense for the year amounted to \$673,284 bringing the accumulated depreciation to \$9,449,800 as of June 30, 2006.

### **2. Long-Term Debt**

At June 30, 2006, the District had \$11,669,642 in bonded debt outstanding. This represents a reduction of \$705,584 from the amount outstanding at the close of the prior fiscal year. The District also owes \$1,771,253 to the School Bond Loan Fund.

## **I. Factors Bearing on the District's Future**

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

- A new Alternative program for high school students began this year with 38 students enrolled in the program. The two teachers who instruct are highly qualified in Math/Science and Language Arts/Social Studies. Four students graduated from the program in June. There has been a lot of interest since the program began from students and families for fall enrollment.
- Due to budget constraints, four teachers were laid off and a principal was not replaced when he moved to another district. The Assistant principal at the middle school was moved to that elementary position. In addition an athletic director position was eliminated and an elementary principal picked up those duties.
- The ISD our district is affiliated with has organized a personnel co-op where local districts may hire a part-time person from the ISD when the need arises. Currently we are using the CO-OP for a technology technician who we employ one day per week and have recently hired personnel thru the CO-OP to staff our Business office. One person takes care of accounts payable/receivable one day per week and we have contracted the services of a chief financial officer to work with administration on budget.
- Our finances continue to decrease annually. Retirement and insurance costs 'eat at' the fund balance. Our fund balance has dropped down to one million dollars which places us at approximately an 8% fund equity.
- The 1995 debt was paid off in May and we were able with additional proceeds to begin paying the School Bond Loan Fund debt accumulated at the beginning of the building project when our debt millage was not bringing in enough revenues to make payments.

**J. Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Morley Stanwood Community Schools, 4700 Northland Drive, Morley, Michigan 49336.

MORLEY STANWOOD COMMUNITY SCHOOLS

MORLEY, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>ASSETS</u>	<u>Governmental Activities</u>
<u>CURRENT ASSETS</u>		
Cash		\$ 840,763
Taxes Receivable		17,734
Accounts Receivable		32,917
Inventories		4,883
Due from Other Governments		2,001,818
Investments		25,937
Total Current Assets		<u>\$ 2,924,052</u>
<u>NON CURRENT ASSETS</u>		
Capital Assets		\$ 25,320,357
Less Accumulated Depreciation		<u>(9,449,800)</u>
Total Non Current Assets		<u>\$ 15,870,557</u>
TOTAL ASSETS		<u><u>\$ 18,794,609</u></u>
	<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable		\$ 135,897
Accrued Interest Payable		80,687
Salaries Payable		907,642
Deferred Revenue		330
State Aid Anticipation Note Payable		250,000
Current Portion of Non Current Liabilities		<u>804,663</u>
Total Current Liabilities		<u>\$ 2,179,219</u>
<u>NON CURRENT LIABILITIES</u>		
Bonds Payable		\$ 11,669,642
Compensated Absences and Severance Plan		314,900
School Bond Loan Fund Loan		1,771,253
Accrued Interest on School Bond Loan Fund		70,969
Less Current Portion of Non Current Liabilities		<u>(804,663)</u>
Total Non Current Liabilities		<u>\$ 13,022,101</u>
Total Liabilities		<u>\$ 15,201,320</u>
<u>NET ASSETS</u>		
Invested in Capital Assets Net of Related Debt		\$ 2,429,662
Restricted for Debt Service		180,027
Unrestricted		<u>983,600</u>
Total Net Assets		<u>\$ 3,593,289</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 18,794,609</u></u>

The notes to the financial statements are an integral part of this statement.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS	ACTIVITIES
				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction				
Basic Programs	\$ 6,582,505	\$ 10,678	\$ 287,663	\$ (6,284,164)
Added Needs	1,762,028	0	1,091,376	(670,652)
Adult/Continuing Education	179,181	0	0	(179,181)
Supporting Services				
Pupil	262,455	0	137,136	(125,319)
Instructional Staff	439,453	0	200,543	(238,910)
General Administration	444,540	0	0	(444,540)
School Administration	1,033,702	0	0	(1,033,702)
Business	32,803	0	0	(32,803)
Operation and Maintenance of Plant	1,578,540	0	3,396	(1,575,144)
Pupil Transportation Services	811,677	0	0	(811,677)
Support Services Technology	149,815	0	0	(149,815)
Community Services	3,886	0	3,886	0
Food Service Activities	614,861	227,502	378,038	(9,321)
Athletic Activities	80,235	81,841	0	1,606
School Operated Public Library	75,386	1,874	64,672	(8,840)
Interest on Long Term Debt	679,583	0	10,467	(669,116)
Other Transactions	58,044	0	0	(58,044)
Unallocated Depreciation	673,284	0	0	(673,284)
Total Governmental Activities	<u>\$15,461,978</u>	<u>\$ 321,895</u>	<u>\$ 2,177,177</u>	<u>\$ (12,962,906)</u>
<u>GENERAL REVENUES</u>				
Property Taxes - General Purposes				\$ 1,293,978
Property Taxes - Debt Service				1,475,117
Investment Earnings				57,386
State Sources				9,679,056
Gain on Sale of Fixed Assets				5,478
Other				90,397
Total General Revenues				<u>\$ 12,601,412</u>
Change in Net Assets				\$ (361,494)
NET ASSETS - Beginning of Year				<u>3,954,783</u>
NET ASSETS - End of Year				<u>\$ 3,593,289</u>

The notes to the financial statements are an integral part of this statement.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash	\$ 259,772	\$ 580,991	\$ 840,763
Taxes Receivable	5,905	11,829	17,734
Accounts Receivable	32,917	0	32,917
Due from Other Funds	69,062	12,454	81,516
Inventories	0	4,883	4,883
Due from Other Governments	1,997,970	3,848	2,001,818
Investments	25,937	0	25,937
 TOTAL ASSETS	 \$ 2,391,563	 \$ 614,005	 \$ 3,005,568
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 133,304	\$ 2,593	\$ 135,897
Salaries and Fringes Payable	907,642	0	907,642
Due to Other Funds	4,043	77,473	81,516
State Aid Anticipation Note Payable	250,000	0	250,000
Deferred Revenue	4,283	1,382	5,665
 Total Liabilities	 \$ 1,299,272	 \$ 81,448	 \$ 1,380,720
<u>FUND BALANCES</u>			
Reserved for Inventory	\$ 0	\$ 4,883	\$ 4,883
Reserved for Debt Service	0	331,683	331,683
Unreserved, Designated for, Reported in:			
Special Revenue Funds	0	58,896	58,896
Capital Outlay	100,000	0	100,000
Unreserved, Undesignated Reported in:			
General Fund	992,291	0	992,291
Special Revenue Funds	0	137,095	137,095
 Total Fund Balances	 \$ 1,092,291	 \$ 532,557	 \$ 1,624,848
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 2,391,563	 \$ 614,005	 \$ 3,005,568

The notes to the financial statements are an integral part of this statement.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO STATEMENT OF NET ASSETS

JUNE 30, 2006

Total Governmental Fund Balances		\$ 1,624,848
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	\$ 25,320,357	
Accumulated depreciation is	<u>(9,449,800)</u>	15,870,557
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable		(13,440,895)
Compensated Absences		(314,900)
Balance of taxes receivable at June 30, 2006, expected to be collected after September 1, 2006		5,335
Accrued interest is not included as a liability in government funds, it is recorded when paid		<u>(151,656)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 3,593,289</u></u>

The notes to the financial statements are an integral part of this statement.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 1,480,765	\$ 1,868,204	\$ 3,348,969
State Sources	10,534,041	51,886	10,585,927
Federal Sources	816,472	343,638	1,160,110
Total Revenues	<u>\$ 12,831,278</u>	<u>\$ 2,263,728</u>	<u>\$ 15,095,006</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	\$ 6,690,553	\$ 0	\$ 6,690,553
Added Needs	1,782,223	0	1,782,223
Adult/Continuing Education	187,515	0	187,515
Supporting Services			
Pupil	262,455	0	262,455
Instructional Staff	439,453	0	439,453
General Administration	444,540	0	444,540
School Administration	1,033,702	0	1,033,702
Business	31,593	0	31,593
Operation and Maintenance of Plant	1,608,121	0	1,608,121
Pupil Transportation Services	936,944	0	936,944
Support Services Technology	149,815	0	149,815
Community Services	3,886	0	3,886
Food Service Activities	0	634,261	634,261
Athletic Activities	0	80,235	80,235
School Operated Public Library	0	75,386	75,386
Debt Service			
Principal	0	764,207	764,207
Interest	0	978,559	978,559
Other Transactions	58,044	0	58,044
Total Expenditures	<u>\$ 13,628,844</u>	<u>\$ 2,532,648</u>	<u>\$ 16,161,492</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (797,566)</u>	<u>\$ (268,920)</u>	<u>\$ (1,066,486)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Sale of Fixed Assets	\$ 5,478	\$ 0	\$ 5,478
Transfers In	10,835	0	10,835
Transfers Out	0	(10,835)	(10,835)
Total Other Financing Sources (Uses)	<u>\$ 16,313</u>	<u>\$ (10,835)</u>	<u>\$ 5,478</u>
Net Change in Fund Balance	<u>\$ (781,253)</u>	<u>\$ (279,755)</u>	<u>\$ (1,061,008)</u>
FUND BALANCE - Beginning of Year	<u>1,873,544</u>	<u>812,312</u>	<u>2,685,856</u>
FUND BALANCE - End of Year	<u>\$ 1,092,291</u>	<u>\$ 532,557</u>	<u>\$ 1,624,848</u>

The notes to the financial statements are an integral part of this statement.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in Fund Balances Total Governmental Funds	\$ (1,061,008)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(673,284)
Capital Outlay	393,708

Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities	(9,758)
--	---------

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the accrual method and not considered available

Deferred Revenue for Taxes - Beginning of Year	(6,545)
Deferred Revenue for Taxes - End of Year	5,335

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	460,390
Accrued Interest Payable - End of Year	(151,656)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	764,207
--	---------

Employees Early Retirement and Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Compensated Absences and Severance Plan - Beginning of Year	232,017
Compensated Absences and Severance Plan - End of Year	<u>(314,900)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (361,494)</u>
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The notes to the financial statements are an integral part of this statement.



MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2006

	<u>PRIVATE PURPOSE TRUST FUND</u>
<u>ADDITIONS</u>	
Earnings on Investments and Deposits	\$ 756
<u>DEDUCTIONS</u>	
Scholarship Awards	<u>0</u>
Change in Net Assets	\$ 756
NET ASSETS - Beginning of Year	<u>29,269</u>
NET ASSETS - End of Year	<u><u>\$ 30,025</u></u>

The notes to the financial statements are an integral part of this statement.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Morley Stanwood Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

Morley Stanwood Community Schools (the "District") is located in Mecosta, Newaygo and Montcalm Counties with its administrative offices located in Morley, Michigan. The District is governed by the Morley Stanwood Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District provides services to its 1,642 students in elementary, middle school, high school, special education instruction, guidance, health, transportation, food service, athletics and public library. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**Other Non-major Funds**

The *special refund funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service, athletic, and public library activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust funds* are accounted for using the accrual method of accounting. Private purpose trust funds account for contributions earmarked for scholarships available to qualifying students of the District.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005. For fiscal year ended June 30, 2006, the per pupil foundation allowance was \$6,875 for Morley Stanwood Community Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**D. Other Accounting Policies**

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and are billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.00
Debt Service Fund - Homestead and Non-homestead	7.00

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5-15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay and comp time benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

GASB 34 paragraph 146 which allows the amortization of premiums, discounts and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2002.

8. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

- A. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, and debt funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 13, 2005, or as amended by the School Board of Education on January 9, and June 12, 2006.

**B. Excess of Expenditures Over Appropriations**

Excess of expenditures over appropriations occurred in the following funds:

School Service Fund – Food Service expenditures of \$634,261 exceeded appropriations of \$573,800 by \$60,461. School Service Fund – Athletic Fund expenditures of \$80,235 exceeded appropriations of \$49,485 by \$30,750.

**NOTE 3 – DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments - Credit Risk**

The District's deposits and investments are all on deposit with Chemical Bank, First Bank, and Michigan School District Liquid Asset Fund Plus.

*Investment rate risk.* The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

*Foreign currency risk.* The District is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

*Concentration of credit risk.* The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$640,150 of the government's bank balance of \$1,684,789 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

At year-end, the only investments were investment trust funds.

Investments not subject to categorization:

Investment Trust Funds	\$ <u>25,937</u>
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The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 840,763	\$ 0	\$ 178,418	\$ 1,019,181
Investments	0	25,937	0	25,937
	<u>\$ 840,763</u>	<u>\$ 25,937</u>	<u>\$ 178,418</u>	<u>\$ 1,045,118</u>

**B. Receivables**

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor and Other Funds	Total
Receivables			
Taxes	\$ 5,905	\$ 11,829	\$ 17,734
Accounts	32,917	0	32,917
Due from Other Governments	1,997,970	3,848	2,001,818
Total Receivables	<u>\$ 2,036,792</u>	<u>\$ 15,677</u>	<u>\$ 2,052,469</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

	Unavailable	Unearned
Delinquent Property Taxes Receivable (General Fund)	\$ 3,953	\$ 0
Delinquent Property Taxes Receivable (Debt Service Funds)	1,382	0
Grants Receipts Received, But Not Yet Utilized	0	330
	<hr/>	<hr/>
Total Deferred/Unearned Revenue for Governmental Funds	\$ 5,335	\$ 330
	<hr/>	<hr/>

**C. Capital Assets**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets being depreciated				
Buildings and additions	\$ 17,887,713	\$ 23,267	\$ 0	\$ 17,910,980
Machinery and equipment	5,795,794	245,174	0	6,040,968
Transportation equipment	1,327,048	125,267	83,906	1,368,409
Subtotal	<hr/> \$ 25,010,555	<hr/> \$ 393,708	<hr/> \$ 83,906	<hr/> \$ 25,320,357
Less accumulated depreciation for:				
Buildings and additions	\$ 3,684,649	\$ 305,684	\$ 0	\$ 3,990,333
Machinery and equipment	4,312,043	249,351	0	4,561,394
Transportation equipment	863,730	118,249	83,906	898,073
Accumulated depreciation	<hr/> \$ 8,860,422	<hr/> \$ 673,284	<hr/> \$ 83,906	<hr/> \$ 9,449,800
Net Capital assets	<hr/> \$ 16,150,133	<hr/> \$ (279,576)	<hr/> \$ 0	<hr/> \$ 15,870,557

Depreciation for the fiscal year ended June 30, 2006 amounted to \$673,284. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**D. Long-Term Debt**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The following is a summary of the long-term debt transactions for the School District for the year ended June 30, 2006:

	SCHOOL BOND LOAN FUND	COMPENSATED ABSENCES AND SEVERANCE PLAN	BONDS	TOTAL
Balance, July 1, 2005	\$ 1,829,876	\$ 232,017	\$12,375,226	\$14,437,119
Additions	0	82,883	0	82,883
Deletions	(58,623)	0	(705,584)	(764,207)
Balance, June 30, 2006	\$ 1,771,253	\$ 314,900	\$11,669,642	\$13,755,795
Less current portion	0	(72,500)	(732,163)	(804,663)
Total due after one year	\$ 1,771,253	\$ 242,400	\$10,937,479	\$12,951,132

Bonds payable at June 30, 2006 are comprised of the following issues:

1999 refunding bonds due in annual installments of \$55,000 to \$785,000 through May 1, 2021 with interest at 4.15% to 4.85%	\$ 8,685,000
2003 Refunding Bonds due in annual installments of \$160,000 to \$695,000 through May 1, 2011, with interest at 2.25% to 3.30%.	<u>2,890,000</u>
Total general obligation debt	\$ 11,575,000

School Bond Loan Fund loan beginning October 30, 1996, Interest at 2.625%. This is a loan from the State of Michigan pursuant to P.A. 108 of 1961. The District's debt retirement millage is limited to 7.0 mills. As long as the tax revenue from this millage is insufficient to make current debt service payments on the District's bonds, additional loans can be obtained in amounts sufficient to make bond and interest payments. No payments are due on the School Bond Loan Fund loan or accrued interest until such time as tax revenues exceed bond debt service requirements. Does not include accrued interest of \$70,969.

1,771,253

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

1998 Limited obligation bonds (Durant bonds) due in annual installments of \$10,466 to \$49,393 through May 2013 with interest at 3.49% 94,642

\$ 13,440,895

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

The annual requirements to amortize all debt outstanding as of June 30, 2006, including interest payments of \$4,354,929 are as follows:

YEAR ENDING JUNE 30,	Principal	Interest	Amounts Payable
2007	\$ 732,163	\$ 487,427	\$ 1,219,590
2008	742,414	469,821	1,212,235
2009	747,673	449,374	1,197,047
2010	762,941	426,164	1,189,105
2011	778,218	400,659	1,178,877
2012-2016	3,981,233	1,483,353	5,464,586
2017-2021	3,925,000	567,162	4,492,162
	<u>11,669,642</u>	<u>4,283,960</u>	<u>15,953,602</u>
Compensated absences and severance plan	314,900	0	314,900
School Bond Loan Fund	<u>1,771,253</u>	<u>70,969</u>	<u>1,842,222</u>
	<u>\$ 13,755,795</u>	<u>\$ 4,354,929</u>	<u>\$ 18,110,724</u>

The annual requirements to amortize the accrued sick leave and School Bond Loan Fund is uncertain because it is unknown when the repayments will be made.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**E. Interfund Receivables, Payables, and Transfers**

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2006, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 69,062	\$ 4,043
School Service Fund - Food Service	4,029	0
School Service Fund - Public Library Fund	14	0
Debt Retirement Fund - 1995 Debt Fund	2,119	42,095
Debt Retirement Fund - 1999 Refunding Debt Fund	6,292	19,615
Debt Retirement Fund - 2003 Refunding Debt Fund	0	15,763
	<u>\$ 81,516</u>	<u>\$ 81,516</u>

Interfund transfers are as shown in the individual fund financial statements at June 30, 2006, were:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 10,835	\$ 0
School Service Fund - Public Library Fund	0	10,835
	<u>\$ 10,835</u>	<u>\$ 10,835</u>

**F. Leases**

The rental expense for the year ended June 30, 2006, totaled \$40,651.

The rental expense consists of lease agreements on copiers, computers, band instruments and alternative education building. The future minimum lease payments for these leases are as follows:

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

<u>YEAR ENDING</u>	
2007	\$ 36,797
2008	9,453
2009	8,573
2010	5,109
	<u>\$ 59,932</u>

**G. Short-Term Debt**

On August 19, 2005, the District issued a State Aid Note in the amount of \$1,300,000 which has been paid in full. On June 8, 2006, the District issued another State Aid Note in the amount of \$250,000. This note matures on August 23, 2006, with interest at 5.50%.

**NOTE 4 - OTHER INFORMATION**

**A. Employee Retirement System**

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 14.87% of payroll through September 30, 2005, and 16.34% effective October 1, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$1,230,378, \$1,032,862 and \$932,197 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post Employment Benefits Funding Policy

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

**B. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 1,397,017	\$ 1,396,959	\$ 1,480,765
State Sources	10,289,969	10,609,783	10,534,041
Federal Sources	845,921	846,977	816,472
Total Revenues	<u>\$ 12,532,907</u>	<u>\$12,853,719</u>	<u>\$12,831,278</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	\$ 6,676,985	\$ 6,716,990	\$ 6,690,553
Added Needs	1,771,717	1,754,991	1,782,223
Adult/Continuing Education	0	190,971	187,515
Supporting Services			
Pupil	291,986	273,785	262,455
Instructional Staff	398,312	476,950	439,453
General Administration	433,957	448,956	444,540
School Administration	974,167	1,012,273	1,033,702
Business	16,700	21,700	31,593
Operation and Maintenance of Plant	1,573,257	1,623,143	1,608,121
Pupil Transportation Services	919,590	913,515	936,944
Support Services Technology	120,534	167,289	149,815
Community Services	0	5,016	3,886
Other Transactions	295,000	63,200	58,044
Total Expenditures	<u>\$ 13,472,205</u>	<u>\$13,668,779</u>	<u>\$13,628,844</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (939,298)</u>	<u>\$ (815,060)</u>	<u>\$ (797,566)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Sale of Fixed Assets	\$ 0	\$ 5,477	\$ 5,478
Transfers In	10,835	10,835	10,835
Transfers Out	0	(7,250)	0
Total Other Financing Sources (Uses)	<u>\$ 10,835</u>	<u>\$ 9,062</u>	<u>\$ 16,313</u>
Net Change in Fund Balance	<u>\$ (928,463)</u>	<u>\$ (805,998)</u>	<u>\$ (781,253)</u>
FUND BALANCE - Beginning of Year	<u>2,681,201</u>	<u>1,946,173</u>	<u>1,873,544</u>
FUND BALANCE - End of Year	<u>\$ 1,752,738</u>	<u>\$ 1,140,175</u>	<u>\$ 1,092,291</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2006

	SPECIAL REVENUE FUNDS	DEBT RETIREMENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
	<u>          </u>	<u>          </u>	<u>          </u>
<u>ASSETS</u>			
Cash	\$ 190,693	\$ 390,298	\$ 580,991
Taxes Receivable	0	11,829	11,829
Due from Other Funds	4,043	8,411	12,454
Inventory	4,883	0	4,883
Due from Other Governments	3,848	0	3,848
	<u>          </u>	<u>          </u>	<u>          </u>
TOTAL ASSETS	<u>\$ 203,467</u>	<u>\$ 410,538</u>	<u>\$ 614,005</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 2,593	\$ 0	\$ 2,593
Due to Other Funds	0	77,473	77,473
Deferred Revenue	0	1,382	1,382
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>\$ 2,593</u>	<u>\$ 78,855</u>	<u>\$ 81,448</u>
<u>FUND BALANCE</u>			
Reserved	\$ 4,883	\$ 331,683	\$ 336,566
Unreserved			
Designated	58,896	0	58,896
Undesignated	137,095	0	137,095
	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>\$ 200,874</u>	<u>\$ 331,683</u>	<u>\$ 532,557</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 203,467</u>	<u>\$ 410,538</u>	<u>\$ 614,005</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS	DEBT RETIREMENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 376,609	\$ 1,491,595	\$ 1,868,204
State Sources	41,419	10,467	51,886
Federal Sources	343,638	0	343,638
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 761,666	\$ 1,502,062	\$ 2,263,728
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>			
Food Service Activities	\$ 634,261	\$ 0	\$ 634,261
Athletic Activities	80,235	0	80,235
School Operated Public Library	75,386	0	75,386
Debt Service			
Principal	0	764,207	764,207
Interest and Other	0	978,559	978,559
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 789,882	\$ 1,742,766	\$ 2,532,648
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ (28,216)	\$ (240,704)	\$ (268,920)
	<hr/>	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	\$ 0	\$ 0	\$ 0
Transfers Out	(10,835)	0	(10,835)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	\$ (10,835)	\$ 0	\$ (10,835)
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance	\$ (39,051)	\$ (240,704)	\$ (279,755)
FUND BALANCE - Beginning of Year	239,925	572,387	812,312
	<hr/>	<hr/>	<hr/>
FUND BALANCE - End of Year	\$ 200,874	\$ 331,683	\$ 532,557
	<hr/>	<hr/>	<hr/>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND

COMPARATIVE BALANCE SHEET  
JUNE 30,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 259,772	\$ 869,597
Taxes Receivable	5,905	7,265
Accounts Receivable	32,917	19,687
Due from Other Funds	69,062	71,387
Due from Other Governmental Units	1,997,970	2,043,327
Investments	25,937	24,944
TOTAL ASSETS	<u>\$ 2,391,563</u>	<u>\$ 3,036,207</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 133,304	\$ 285,987
Due to Other Funds	4,043	0
Salaries and Fringes Payable	907,642	865,677
State Aid Anticipation Note Payable	250,000	0
Deferred Revenue	4,283	10,999
Total Liabilities	<u>\$ 1,299,272</u>	<u>\$ 1,162,663</u>
<u>FUND BALANCE</u>		
Unreserved		
Designated for Capital Outlay	\$ 100,000	\$ 100,000
Undesignated	992,291	1,773,544
Total Fund Balance	<u>\$ 1,092,291</u>	<u>\$ 1,873,544</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,391,563</u>	<u>\$ 3,036,207</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources	\$ 1,480,765	\$ 1,459,989
State Sources	10,534,041	10,268,232
Federal Sources	<u>816,472</u>	<u>740,667</u>
Total Revenues	<u>\$ 12,831,278</u>	<u>\$ 12,468,888</u>
<u>EXPENDITURES</u>		
Instruction		
Basic Programs		
Elementary	\$ 2,539,959	\$ 2,455,584
Middle/Junior High	2,046,284	1,940,244
High School	1,967,677	1,942,279
Pre-School	118,800	118,800
Other Basic Programs	17,833	15,958
Added Needs		
Special Education	1,085,748	960,143
Compensatory Education	696,475	643,347
Adult/Continuing Education		
Alternative Education	187,515	0
Supporting Services		
Pupil		
Guidance Services	89,114	170,175
Social Work Services	135,850	73,295
Teacher Consultant	37,491	34,890
Other Pupil Support Services	0	3,396
Instructional Staff		
Improvement of Instruction	216,124	171,438
Educational Media Services	142,148	141,776
Supervision and Direction	81,181	79,524
General Administration		
Board of Education	63,660	77,785
Executive Administration	380,880	351,860
School Administration		
Office of the Principal	1,033,702	952,025

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
Business		
Fiscal Services	31,593	7,568
Operation and Maintenance of Plant		
Operating Building Services	1,603,389	1,491,574
Security Services	4,732	0
Pupil Transportation Services	936,944	820,080
Support Services		
Support Services Technology	149,815	105,616
Community Services		
Community Activities	3,886	0
Other Transactions		
Transfers to Other School Districts	58,044	402,864
	<u>\$ 13,628,844</u>	<u>\$ 12,960,221</u>
Total Expenditures		
	<u>\$ 13,628,844</u>	<u>\$ 12,960,221</u>
Excess (Deficiency) of Revenues		
Over Expenditures	<u>\$ (797,566)</u>	<u>\$ (491,333)</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In (Out)		
Food Service Fund	\$ 0	\$ (5,520)
Public Library Fund	10,835	10,835
Energy Conservation Debt Fund	0	(81,920)
Sale of Fixed Assets	5,478	33,842
	<u>\$ 16,313</u>	<u>\$ (42,763)</u>
Total Other Financing Sources (Uses)		
	<u>\$ 16,313</u>	<u>\$ (42,763)</u>
Net Change in Fund Balance	\$ (781,253)	\$ (534,096)
<u>FUND BALANCE</u> - Beginning of Year	<u>1,873,544</u>	<u>2,407,640</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 1,092,291</u>	<u>\$ 1,873,544</u>

MORLEY STANWOOD COMMUNITY SCHOOLS

MORLEY, MICHIGAN

GENERAL FUND

COMPARATIVE ANALYSIS OF REVENUES

YEAR ENDED JUNE 30,

	2006	2005
<u>LOCAL SOURCES</u>		
Property Tax Levy	\$ 1,293,978	\$ 1,254,395
Other Taxes	3,654	2,060
Earnings on Investments	33,169	15,408
Other Local Revenues		
Medicaid Fees	52,543	61,919
Rental Income	10,678	2,798
Miscellaneous	86,743	123,409
Total Local Sources	<u>\$ 1,480,765</u>	<u>\$ 1,459,989</u>
<u>STATE SOURCES</u>		
Grants-In-Aid		
Received through the State		
State School Aid	\$ 10,530,619	\$ 10,261,337
Received through Other Districts	3,422	6,895
Total State Sources	<u>\$ 10,534,041</u>	<u>\$ 10,268,232</u>
<u>FEDERAL SOURCES</u>		
Grant-In-Aid Restricted		
Received through the State		
Title I	\$ 506,206	\$ 473,182
Title II Part D	9,142	11,106
Handicapped Preschool Program	4,130	0
Comprehensive School Reform	131,117	68,907
Title II Part A Teacher Training	127,017	134,112
Drug Free Schools	10,406	12,654
Homeland Security Grant	651	0
Title V	6,812	13,902
Received through Marquette Alger Regional Service Agency		
Personnel Development	0	5,000
Received through Intermediate School District		
Medicaid Outreach	2,455	5,662
Homeless Child	2,407	0
IDEA	16,129	16,142
Total Federal Sources	<u>\$ 816,472</u>	<u>\$ 740,667</u>
Total Revenues	<u><u>\$ 12,831,278</u></u>	<u><u>\$ 12,468,888</u></u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND  
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30,

<u>INSTRUCTION</u>	<u>2006</u>	<u>2005</u>
<u>Basic Programs</u>		
<u>Elementary</u>		
Salaries	\$ 1,555,542	\$ 1,511,510
Employee Benefits	803,279	754,096
Contracted Services	68,337	53,240
Travel and Mileage	96	303
Conferences and Workshops	1,891	1,611
Equipment Repair and Lease	9,649	16,620
Teaching Supplies and Materials	60,812	70,003
Textbooks and Workbooks	38,468	37,625
Dues and Fees	1,250	1,125
Miscellaneous	58	0
Capital Outlay	577	9,451
Total Elementary	<u>\$ 2,539,959</u>	<u>\$ 2,455,584</u>
 <u>Middle School/Junior High</u>		
Salaries	\$ 1,253,341	\$ 1,207,135
Employee Benefits	686,438	616,551
Contracted Services	18,593	47,713
Conferences and Workshops	420	9,238
Equipment Repair and Lease	7,522	3,591
Teaching Supplies and Materials	36,600	39,887
Textbooks and Workbooks	39,095	4,863
Dues and Fees	985	653
Miscellaneous	41	60
Capital Outlay	3,249	10,553
Total Middle School/Junior High	<u>\$ 2,046,284</u>	<u>\$ 1,940,244</u>
 <u>High School</u>		
Salaries	\$ 1,187,250	\$ 1,217,066
Employee Benefits	591,196	561,543
Contracted Services	84,678	65,499
Travel and Mileage	0	235
Conferences and Workshops	1,211	4,474
Equipment Repair and Lease	9,644	12,293
Teaching Supplies and Materials	57,741	58,630
Textbooks and Workbooks	28,462	11,022

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND  
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30,

	2006	2005
Dues and Fees	1,500	1,400
Miscellaneous	126	186
Capital Outlay	5,869	9,931
Total High School	<u>\$ 1,967,677</u>	<u>\$ 1,942,279</u>

Pre-School

Contracted Services	<u>\$ 118,800</u>	<u>\$ 118,800</u>
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Other Basic Programs

Driver Education		
Salaries	\$ 14,555	\$ 10,841
Employee Benefits	3,278	2,302
Equipment Rentals	0	2,482
Supplies	0	333
Total Other Basic Programs	<u>\$ 17,833</u>	<u>\$ 15,958</u>

Added Needs

Special Education

Salaries	\$ 674,116	\$ 632,881
Employee Benefits	348,340	320,539
Contracted Services	32,130	0
Travel and Mileage	78	196
Teaching Supplies and Materials	3,509	6,459
Textbooks and Workbooks	20,195	0
Miscellaneous	1,030	68
Capital Outlay	6,350	0
Total Special Education	<u>\$ 1,085,748</u>	<u>\$ 960,143</u>

Compensatory Education

Salaries	\$ 429,684	\$ 401,314
Employee Benefits	254,284	229,393
Contracted Services	9,247	12,137
Travel and Mileage	0	22
Teaching Supplies and Materials	3,260	0
Textbooks and Workbooks	0	418
Miscellaneous	0	63
Total Compensatory Education	<u>\$ 696,475</u>	<u>\$ 643,347</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND  
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>Adult/Continuing Education</u>		
<u>Alternative Education</u>		
Salaries	\$ 100,250	\$ 0
Employee Benefits	63,922	0
Contracted Services	5,934	0
Teaching Supplies and Materials	11,409	0
Capital Outlay	6,000	0
Total Alternative Education	<u>\$ 187,515</u>	<u>\$ 0</u>
 <u>SUPPORTING SERVICES</u>		
<u>Pupil Services</u>		
<u>Guidance Services</u>		
Salaries of Counselors	\$ 59,964	\$ 116,718
Employee Benefits	28,887	52,920
Travel and Mileage	228	271
Teaching Supplies and Materials	35	266
Total Guidance Services	<u>\$ 89,114</u>	<u>\$ 170,175</u>
<u>Social Work Services</u>		
Salaries	\$ 90,989	\$ 53,480
Employee Benefits	44,591	19,585
Conferences and Workshops	270	230
Total Social Work Services	<u>\$ 135,850</u>	<u>\$ 73,295</u>
<u>Teacher Consultant</u>		
Salaries	\$ 24,898	\$ 22,835
Employee Benefits	12,537	11,745
Conferences and Workshops	56	310
Total Teacher Consultant	<u>\$ 37,491</u>	<u>\$ 34,890</u>
<u>Other Pupil Support Services</u>		
Liaison	<u>\$ 0</u>	<u>\$ 3,396</u>
 <u>Instructional Staff</u>		
<u>Improvement of Instruction</u>		
Salaries	\$ 9,455	\$ 13,272

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND  
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30,

	2006	2005
Employee Benefits	2,083	2,081
Contracted Services	148,078	108,243
Conferences and Workshops	38,178	31,696
Teaching Supplies	17,747	15,230
Travel and Mileage	0	622
Dues and Fees	583	294
Total Improvement of Instruction	\$ 216,124	\$ 171,438

Educational Media Services

Salaries	\$ 79,929	\$ 82,062
Employee Benefits	44,393	42,742
Books	10,146	11,619
Periodicals	5,723	4,945
Office Supplies	1,396	393
Miscellaneous	0	15
Capital Outlay	561	0
Total Educational Media Services	\$ 142,148	\$ 141,776

Supervision and Direction of Instructional Staff

Salaries	\$ 37,492	\$ 40,299
Employee Benefits	16,383	14,890
Contracted Services	27,104	23,758
Conferences and Workshops	0	372
Travel and Mileage	122	96
Miscellaneous	80	109
Total Supervision and Direction of Instructional Staff	\$ 81,181	\$ 79,524

General Administrative Services

Board of Education

Board of Education Fees	\$ 2,935	\$ 2,590
Election Board Fees	3,457	17
Contracted Legal and Audit Services	26,058	30,063
Travel and Mileage	768	411
Conferences and Workshops	1,799	2,092
Printing and Publishing	4,452	4,758
Unemployment Compensation	13,899	13,160
Insurance	0	17,962

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND  
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30,

	2006	2005
Miscellaneous Supplies	0	2,980
Dues and Subscriptions	3,829	1,427
Miscellaneous	6,463	2,325
Total Board of Education	\$ 63,660	\$ 77,785

Executive Administration

Superintendent's Salary	\$ 107,527	\$ 105,104
Clerical Salaries	124,070	118,934
Employee Benefits	122,927	101,800
Contracted Services	2,850	1,050
Travel and Mileage	0	127
Conferences and Workshops	2,168	1,425
Mailing and Postage	2,871	2,279
Publishing	600	279
Equipment Repair and Lease	410	873
Office Supplies	12,247	16,170
Dues and Subscriptions	1,310	655
Miscellaneous	700	3,164
Capital Outlay	3,200	0
Total Executive Administration	\$ 380,880	\$ 351,860

School Administrative Services

Office of the Principal

Salaries	\$ 679,711	\$ 641,064
Employee Benefits	333,955	282,515
Travel and Mileage	847	876
Conferences and Workshops	2,791	2,064
Mailing and Postage	4,532	5,455
Office Supplies	9,467	16,618
Dues and Subscriptions	2,399	3,037
Miscellaneous	0	396
Total Office of the Principal	\$ 1,033,702	\$ 952,025

Business Services

Fiscal Services

Taxes Abated and Written Off	\$ 798	\$ 6,838
Interest Expense	15,187	0

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND  
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30,

	2006	2005
Insurance	12,159	0
Legal and Professional	2,622	0
Miscellaneous	827	730
Total Fiscal Services	\$ 31,593	\$ 7,568

Operation and Maintenance of Plant

Operating Building Services

Salaries of Custodians	\$ 456,342	\$ 427,439
Employee Benefits	287,271	235,945
Travel and Mileage	1,940	1,484
Conferences and Workshops	542	596
Building and Equipment Rent	11,000	130
Telephone	51,183	45,910
Heating and Fuel	276,387	215,168
Electricity	168,966	156,522
Trash Removal	8,201	9,167
Insurance	47,131	43,738
Contracted Maintenance Services	81,225	222,391
Gas, Oil and Grease	5,307	3,833
Vehicle Repair Parts	52	242
Custodial Supplies	125,015	83,892
Maintenance Supplies	3,374	8,770
Miscellaneous Supplies	983	1,572
Energy Conservation Charges	8,890	0
Capital Outlay	69,580	34,775
Total Operating Building Services	\$ 1,603,389	\$ 1,491,574

Security Services

Contracted Services	\$ 4,732	\$ 0
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Pupil Transportation Services

Salaries	\$ 396,244	\$ 401,189
Employee Benefits	244,966	222,180
Travel and Mileage	1,434	1,155
Conferences and Workshops	1,157	190
Contracted Services	17,086	0
Telephone	2,055	1,968
Transportation Insurance	13,378	13,448

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

GENERAL FUND  
COMPARATIVE ANALYSIS OF EXPENDITURES

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
Contracted Bus Repair	4,924	9,854
Rental - Radio Equipment	2,688	2,688
Gas, Oil and Grease	89,646	67,198
Tires, Tubes and Batteries	4,467	5,789
Vehicle Repair Parts	18,008	21,076
Other Supplies	5,440	4,513
Small Tools	1,428	59
Miscellaneous	4,001	7,088
Dues and Subscriptions	268	0
Capital Outlay	129,754	61,685
Total Pupil Transportation Services	<u>\$ 936,944</u>	<u>\$ 820,080</u>
<u>Support Services - Technology</u>		
Salaries	\$ 49,275	\$ 48,191
Employee Benefits	27,352	22,658
Contracted Services	20,302	9,457
Conferences and Workshops	1,064	290
Repairs and Maintenance	27,557	21,948
Office Supplies	0	1,217
Travel and Mileage	47	93
Capital Outlay	24,218	1,762
Total Support Services - Technology	<u>\$ 149,815</u>	<u>\$ 105,616</u>
<u>Community Activities</u>		
Supplies and Materials	<u>\$ 3,886</u>	<u>\$ 0</u>
<u>Other Transactions</u>		
Transfer to I.S.D.	\$ 58,044	\$ 402,864
Adjustments to Prior Year Accounts	0	0
Total Other Transactions	<u>\$ 58,044</u>	<u>\$ 402,864</u>
 Total Expenditures	 <u><u>\$ 13,628,844</u></u>	 <u><u>\$ 12,960,221</u></u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET

JUNE 30, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005

	FOOD SERVICE	ATHLETIC FUND	PUBLIC LIBRARY	TOTALS	
				2006	2005
<u>ASSETS</u>					
Cash	\$ 44,019	\$ 9,593	\$ 137,081	\$ 190,693	\$ 236,425
Due from Other Governments	3,848	0	0	3,848	3,500
Due from Other Funds	4,029	0	14	4,043	0
Inventory					
Supplies	1,537	0	0	1,537	1,946
Food	3,346	0	0	3,346	2,871
TOTAL ASSETS	<u>\$ 56,779</u>	<u>\$ 9,593</u>	<u>\$ 137,095</u>	<u>\$ 203,467</u>	<u>\$ 244,742</u>
<u>LIABILITIES</u>					
Accounts Payable	\$ 2,593	\$ 0	\$ 0	\$ 2,593	\$ 2,492
Due to Other Funds	0	0	0	0	2,325
Total Liabilities	<u>\$ 2,593</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,593</u>	<u>\$ 4,817</u>
<u>FUND BALANCE</u>					
Reserved for Inventory	\$ 4,883	\$ 0	\$ 0	\$ 4,883	\$ 4,817
Unreserved					
Designated for:					
Food Service	49,303	0	0	49,303	77,489
Athletic	0	9,593	0	9,593	7,903
Undesignated	0	0	137,095	137,095	149,716
Total Fund Balance	<u>\$ 54,186</u>	<u>\$ 9,593</u>	<u>\$ 137,095</u>	<u>\$ 200,874</u>	<u>\$ 239,925</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 56,779</u>	<u>\$ 9,593</u>	<u>\$ 137,095</u>	<u>\$ 203,467</u>	<u>\$ 244,742</u>

MORLEY STANWOOD COMMUNITY SCHOOLS

MORLEY, MICHIGAN

SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005

	FOOD SERVICE	ATHLETIC FUND	PUBLIC LIBRARY	TOTALS	
				2006	2005
<u>REVENUES</u>					
Local Sources	\$ 228,103	\$ 81,925	\$ 66,581	\$ 376,609	\$ 363,005
State Sources	34,400	0	7,019	41,419	40,359
Federal Sources	343,638	0	0	343,638	332,040
Total Revenues	<u>\$ 606,141</u>	<u>\$ 81,925</u>	<u>\$ 73,600</u>	<u>\$ 761,666</u>	<u>\$ 735,404</u>
<u>EXPENDITURES</u>					
Salaries	\$ 200,604	\$ 0	\$ 39,628	\$ 240,232	\$ 227,622
Employee Benefits	95,591	0	11,729	107,320	96,026
Purchased Services	14,616	49,290	1,904	65,810	72,624
Supplies and Materials	282,596	30,945	18,189	331,730	321,029
Other Expenditures	11,069	0	3,843	14,912	7,305
Capital Outlay	29,785	0	93	29,878	11,871
Total Expenditures	<u>\$ 634,261</u>	<u>\$ 80,235</u>	<u>\$ 75,386</u>	<u>\$ 789,882</u>	<u>\$ 736,477</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (28,120)</u>	<u>\$ 1,690</u>	<u>\$ (1,786)</u>	<u>\$ (28,216)</u>	<u>\$ (1,073)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,520
Transfers Out	0	0	(10,835)	(10,835)	(10,835)
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (10,835)</u>	<u>\$ (10,835)</u>	<u>\$ (5,315)</u>
Net Change in Fund Balance	<u>\$ (28,120)</u>	<u>\$ 1,690</u>	<u>\$ (12,621)</u>	<u>\$ (39,051)</u>	<u>\$ (6,388)</u>
<u>FUND BALANCE</u> - Beginning of Year	<u>82,306</u>	<u>7,903</u>	<u>149,716</u>	<u>239,925</u>	<u>246,313</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 54,186</u>	<u>\$ 9,593</u>	<u>\$ 137,095</u>	<u>\$ 200,874</u>	<u>\$ 239,925</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

FOOD SERVICE FUND

COMPARATIVE BALANCE SHEET  
JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 44,019	\$ 78,806
Due from Other Governments	3,848	3,500
Due from Other Funds	4,029	0
Inventory		
Supplies	1,537	1,946
Food	3,346	2,871
TOTAL ASSETS	<u>\$ 56,779</u>	<u>\$ 87,123</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 2,593	\$ 2,492
Due to Other Funds	0	2,325
Total Liabilities	<u>\$ 2,593</u>	<u>\$ 4,817</u>
<u>FUND BALANCE</u>		
Reserved for Inventory - Food and Supplies	\$ 4,883	\$ 4,817
Unreserved - Designated for Food Service	49,303	77,489
Total Fund Balance	<u>\$ 54,186</u>	<u>\$ 82,306</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 56,779</u>	<u>\$ 87,123</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

FOOD SERVICE FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources		
Earnings on Investments and Deposits	\$ 601	\$ 431
Children's Lunches	112,188	108,290
Adult Lunches	12,545	13,791
Breakfast	11,062	10,699
Preschool Lunches	5,201	6,052
Snack Bar	67,599	57,564
Miscellaneous	18,907	14,848
Total Local Sources	<u>\$ 228,103</u>	<u>\$ 211,675</u>
State Sources		
State Aid - Regular	<u>\$ 34,400</u>	<u>\$ 32,663</u>
Federal Sources		
Federal Aid - Regular	\$ 316,615	\$ 306,765
Federal Aid - U.S.D.A. Commodities	27,023	25,275
Total Federal Sources	<u>\$ 343,638</u>	<u>\$ 332,040</u>
Total Revenues	<u>\$ 606,141</u>	<u>\$ 576,378</u>
<u>EXPENDITURES</u>		
Salaries	\$ 200,604	\$ 189,612
Employee Benefits	95,591	85,391
Purchased Services	14,616	22,227
Supplies and Materials	282,596	262,822
Other Expenditures	11,069	7,305
Capital Outlay	29,785	10,305
Total Expenditures	<u>\$ 634,261</u>	<u>\$ 577,662</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (28,120)	\$ (1,284)

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

FOOD SERVICE FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In		
General Fund	<u>0</u>	<u>5,520</u>
Net Change in Fund Balance	\$ (28,120)	\$ 4,236
<u>FUND BALANCE</u> - Beginning of Year	<u>82,306</u>	<u>78,070</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 54,186</u></u>	<u><u>\$ 82,306</u></u>



MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

ATHLETIC FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources		
Earnings on Investments	\$      84	\$      13
Donations	5,380	2,150
Gate Receipts, Admissions and Camp Fees	75,461	81,977
Miscellaneous	<u>1,000</u>	<u>0</u>
 Total Revenues	 <u>\$  81,925</u>	 <u>\$  84,140</u>
 <u>EXPENDITURES</u>		
Purchased Services	\$  49,290	\$  48,790
Supplies and Materials	<u>30,945</u>	<u>40,277</u>
 Total Expenditures	 <u>\$  80,235</u>	 <u>\$  89,067</u>
 Excess (Deficiency) of Revenues Over Expenditures	 \$     1,690	 \$     (4,927)
 <u>FUND BALANCE</u> - Beginning of Year	 <u>7,903</u>	 <u>12,830</u>
 <u>FUND BALANCE</u> - End of Year	 <u><u>\$     9,593</u></u>	 <u><u>\$     7,903</u></u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

PUBLIC LIBRARY FUND

COMPARATIVE BALANCE SHEET

JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 137,081	\$ 149,716
Due from Other Funds	14	0
TOTAL ASSETS	<u>\$ 137,095</u>	<u>\$ 149,716</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 0
<u>FUND BALANCE</u>		
Unreserved		
Undesignated	<u>137,095</u>	<u>149,716</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 137,095</u>	<u>\$ 149,716</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

PUBLIC LIBRARY FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources		
Earnings on Investments and Deposits	\$ 7,054	\$ 6,843
Penal Fines	53,353	51,702
Township Aid	4,300	4,250
Miscellaneous	1,874	4,395
Total Local Sources	<u>\$ 66,581</u>	<u>\$ 67,190</u>
State Sources		
State Aid	<u>7,019</u>	<u>7,696</u>
Total Revenues	<u>\$ 73,600</u>	<u>\$ 74,886</u>
<u>EXPENDITURES</u>		
Salaries	\$ 39,628	\$ 38,010
Employee Benefits	11,729	10,635
Purchased Services	1,904	1,607
Supplies and Materials	18,189	13,951
Dues and Fees	3,843	3,979
Capital Outlay	<u>93</u>	<u>1,566</u>
Total Expenditures	<u>\$ 75,386</u>	<u>\$ 69,748</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,786)	\$ 5,138
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers Out		
General Fund	<u>(10,835)</u>	<u>(10,835)</u>
Net Change in Fund Balance	\$ (12,621)	\$ (5,697)
<u>FUND BALANCE</u> - Beginning of Year	<u>149,716</u>	<u>155,413</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 137,095</u></u>	<u><u>\$ 149,716</u></u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

DEBT RETIREMENT FUNDS  
COMBINING BALANCE SHEET

JUNE 30, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005

	1995 DEBT	DURANT RESOLUTION DEBT	1999 REFUNDING DEBT	2003 REFUNDING DEBT	TOTALS	
					2006	2005
<u>ASSETS</u>						
Cash	\$ 86,759	\$ 0	\$ 217,707	\$ 85,832	\$ 390,298	\$ 640,602
Taxes Receivable	6,053	0	4,308	1,468	11,829	2,332
Due from 2003 Refunding Debt Retirement Fund	2,119	0	6,292	0	8,411	0
Total Assets	\$ 94,931	\$ 0	\$ 228,307	\$ 87,300	\$ 410,538	\$ 642,934
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Due to 1995 Debt Fund	\$ 0	\$ 0	\$ 0	\$ 2,119	\$ 2,119	\$ 0
Due to General Fund	42,095	0	19,615	7,352	69,062	69,062
Due to 1999 Debt Fund	0	0	0	6,292	6,292	0
Deferred Revenue	662	0	434	286	1,382	1,485
Total Liabilities	\$ 42,757	\$ 0	\$ 20,049	\$ 16,049	\$ 78,855	\$ 70,547
<u>FUND BALANCE</u>						
Reserved for Debt Retirement	52,174	0	208,258	71,251	331,683	572,387
TOTAL LIABILITIES AND FUND BALANCE	\$ 94,931	\$ 0	\$ 228,307	\$ 87,300	\$ 410,538	\$ 642,934

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

DEBT RETIREMENT FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005

	1995	DURANT	1999	2003	TOTALS	
	DEBT	RESOLUTION	REFUNDING	REFUNDING	2006	2005
	DEBT	DEBT	DEBT	DEBT		
<u>REVENUES</u>						
Local Sources	\$ 757,590	\$ 0	\$ 555,778	\$ 178,227	\$ 1,491,595	\$ 1,432,222
State Sources	0	10,467	0	0	10,467	0
Total Revenues	\$ 757,590	\$ 10,467	\$ 555,778	\$ 178,227	\$ 1,502,062	\$ 1,432,222
<u>EXPENDITURES</u>						
Principal Payments	\$ 611,725	\$ 584	\$ 61,725	\$ 90,173	\$ 764,207	\$ 755,000
Interest Payments	125,775	9,883	493,082	347,270	976,010	567,021
Taxes Abated and Written Off	198	0	283	268	749	22,359
Miscellaneous	700	0	600	500	1,800	26
Total Expenditures	\$ 738,398	\$ 10,467	\$ 555,690	\$ 438,211	\$ 1,742,766	\$ 1,344,406
Excess (Deficiency) of Revenues Over Expenditures	\$ 19,192	\$ 0	\$ 88	\$ (259,984)	\$ (240,704)	\$ 87,816
<u>OTHER FINANCING SOURCES (USES)</u>						
Transfers In	0	0	0	0	0	81,920
Net Change in Fund Balance	\$ 19,192	\$ 0	\$ 88	\$ (259,984)	\$ (240,704)	\$ 169,736
<u>FUND BALANCE</u> - Beginning of Year	32,982	0	208,170	331,235	572,387	402,651
<u>FUND BALANCE</u> - End of Year	\$ 52,174	\$ 0	\$ 208,258	\$ 71,251	\$ 331,683	\$ 572,387

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

1995 DEBT RETIREMENT FUND  
COMPARATIVE BALANCE SHEET

JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 86,759	\$ 74,739
Due from 2003 Refunding Debt Retirement Fund	2,119	0
Taxes Receivable	6,053	1,261
TOTAL ASSETS	<u>\$ 94,931</u>	<u>\$ 76,000</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Deferred Revenue	\$ 662	\$ 923
Due to General Fund	42,095	42,095
Total Liabilities	\$ 42,757	\$ 43,018
<u>FUND BALANCE</u>		
Reserved for Debt Retirement	52,174	32,982
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 94,931</u>	<u>\$ 76,000</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

1995 DEBT RETIREMENT FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources		
Property Tax Levy	\$ 680,958	\$ 509,748
Industrial Facilities Tax	73,367	59,600
Penalties and Interest on Delinquent Tax	49	8
Earnings on Investments	3,216	2,396
Total Revenues	<u>\$ 757,590</u>	<u>\$ 571,752</u>
<u>EXPENDITURES</u>		
Principal Payments	\$ 600,000	\$ 575,000
Principal Payments-School Bond Loan Fund	11,725	0
Interest Payments	125,775	74,875
Taxes Abated and Written Off	198	7,473
Miscellaneous	700	26
Total Expenditures	<u>\$ 738,398</u>	<u>\$ 657,374</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 19,192	\$ (85,622)
<u>FUND BALANCE</u> - Beginning of Year	<u>32,982</u>	<u>118,604</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 52,174</u></u>	<u><u>\$ 32,982</u></u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

DURANT RESOLUTION DEBT RETIREMENT FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
State Sources		
State Aid - Restricted	\$ 10,467	\$ 0
<u>EXPENDITURES</u>		
Principal Payments	\$ 584	\$ 0
Interest Payments	9,883	0
Total Expenditures	\$ 10,467	\$ 0
Excess (Deficiency) of Revenues Over Expenditures	\$ 0	\$ 0
<u>FUND BALANCE</u> - Beginning of Year	<u>0</u>	<u>0</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 0</u>	<u>\$ 0</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

1999 SCHOOL REFUNDING BOND DEBT RETIREMENT FUND  
COMPARATIVE BALANCE SHEET

JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 217,707	\$ 227,522
Taxes Receivable	4,308	697
Due from 2003 Refunding Debt Retirement Fund	<u>6,292</u>	<u>0</u>
 TOTAL ASSETS	 <u>\$ 228,307</u>	 <u>\$ 228,219</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Deferred Revenue	\$ 434	\$ 434
Due to General Fund	<u>19,615</u>	<u>19,615</u>
 Total Liabilities	 \$ 20,049	 \$ 20,049
 <u>FUND BALANCE</u>		
Reserved for Debt Retirement	<u>208,258</u>	<u>208,170</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 228,307</u>	 <u>\$ 228,219</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

1999 SCHOOL REFUNDING BOND DEBT RETIREMENT FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	2006	2005
<u>REVENUES</u>		
Local Sources		
Property Tax Levy	\$ 498,406	\$ 395,055
Industrial Facilities Tax	53,694	46,190
Penalties and Interest on Delinquent Tax	35	6
Earnings on Investments	3,643	2,288
	<hr/>	<hr/>
Total Revenues	\$ 555,778	\$ 443,539
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Principal Payments	\$ 50,000	\$ 50,000
Principal Payments-School Bond Loan Fund	11,725	0
Interest Payments	493,082	406,783
Taxes Abated and Written Off	283	6,784
Miscellaneous	600	0
	<hr/>	<hr/>
Total Expenditures	\$ 555,690	\$ 463,567
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ 88	\$ (20,028)
<u>FUND BALANCE</u> - Beginning of Year	208,170	228,198
	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 208,258	\$ 208,170
	<hr/>	<hr/>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

1999 ENERGY CONSERVATION IMPROVEMENT BONDS FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>	\$ 0	\$ 0
<u>EXPENDITURES</u>		
Principal Payments	\$ 0	\$ 80,000
Interest Payments	0	1,920
	<hr/>	<hr/>
Total Expenditures	\$ 0	\$ 81,920
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ 0	\$ (81,920)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In		
General Fund	0	81,920
	<hr/>	<hr/>
Net Change in Fund Balance	\$ 0	\$ 0
<u>FUND BALANCE</u> - Beginning of Year	<hr/> 0	<hr/> 0
<u>FUND BALANCE</u> - End of Year	<hr/> \$ 0	<hr/> \$ 0

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

2003 REFUNDING DEBT RETIREMENT FUND  
COMPARATIVE BALANCE SHEET

JUNE 30,

	2006	2005
<u>ASSETS</u>		
Cash	\$ 85,832	\$ 338,341
Taxes Receivable	1,468	374
TOTAL ASSETS	<u>\$ 87,300</u>	<u>\$ 338,715</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Deferred Revenue	\$ 286	\$ 128
Due to 1995 Debt Fund	2,119	0
Due to 1999 Debt Fund	6,292	0
Due to General Fund	7,352	7,352
Total Liabilities	\$ 16,049	\$ 7,480
<u>FUND BALANCE</u>		
Reserved for Debt Retirement	71,251	331,235
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 87,300</u>	<u>\$ 338,715</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

2003 REFUNDING DEBT RETIREMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources		
Property Tax Levy	\$ 152,200	\$ 369,567
Industrial Facilities Tax	16,395	43,210
Penalties and Interest on Delinquent Tax	13	6
Earnings on Investments	9,619	4,148
	<hr/>	<hr/>
Total Revenues	\$ 178,227	\$ 416,931
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Principal Payments	\$ 55,000	\$ 50,000
Principal Payments-School Bond Loan Fund	35,173	0
Interest Payments	347,270	83,443
Taxes Abated and Written Off	268	8,102
Miscellaneous	500	0
	<hr/>	<hr/>
Total Expenditures	\$ 438,211	\$ 141,545
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ (259,984)	\$ 275,386
	<hr/>	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	331,235	55,849
	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 71,251	\$ 331,235
	<hr/>	<hr/>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

FIDUCIARY FUND TYPES  
COMBINING BALANCE SHEET

JUNE 30, 2006

WITH COMPARATIVE TOTALS FOR JUNE 30, 2005

		PRIVATE PURPOSE			
		TRUST FUND	AGENCY FUNDS		
		ERICKSON	SCHOOL	TOTALS	
		SCHOLARSHIP	ACCOUNTS	2006	2005
	<u>ASSETS</u>				
Cash		\$ 30,025	\$ 148,393	\$ 178,418	\$ 204,771
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Due to Groups and Organizations		\$ 0	\$ 148,393	\$ 148,393	\$ 175,502
<u>FUND BALANCE</u>					
Reserved for Trust Activities		30,025	0	30,025	29,269
TOTAL LIABILITIES AND FUND BALANCE		\$ 30,025	\$ 148,393	\$ 178,418	\$ 204,771



MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

ERICKSON SCHOLARSHIP PRIVATE PURPOSE TRUST FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Earnings on Investments and Deposits	\$ 756	\$ 577
<u>OPERATING EXPENSES</u>		
Scholarship Awards	<u>0</u>	<u>(750)</u>
Operating Income (Loss)	\$ 756	\$ (173)
<u>FUND BALANCE</u> - Beginning of Year	<u>29,269</u>	<u>29,442</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 30,025</u>	<u>\$ 29,269</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

FIDUCIARY FUND TYPES  
AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE  
YEAR ENDED JUNE 30, 2006

	BALANCE	RECEIPTS	DISBURSEMENTS	BALANCE
	7/1/2005	(Including Transfers)		6/30/2006
High School				
Art Fund	\$ 417	\$ 207	\$ 0	\$ 624
Band Boosters	358	0	0	358
Bookstore	304	49	0	353
Cheerleaders	1,376	776	2,014	138
Chip Sales	3,879	36,083	39,884	78
Choir	192	257	0	449
Class of 2009	0	375	186	189
Class of 2006	6,337	6,757	13,094	0
Class of 2007	1,195	3,180	2,370	2,005
Class of 2008	1,018	1,200	1,309	909
Classroom Supplies	7,269	111	1,097	6,283
Community Service Group	41	1,383	1,300	124
Flower Fund	24	180	78	126
Interest	1,234	2,869	10	4,093
International Studies Club	43	525	0	568
Library	377	67	162	282
Miscellaneous	29,142	10,642	27,413	12,371
MSEA Scholarship Fund	5,332	1,993	0	7,325
National Honor Society	113	1,495	1,694	(86)
Outdoor Education Class	202	1,000	819	383
PRIDE	532	0	532	0
Principals' Academic Fund	(12)	1,003	893	98
Revolving Fund	2,896	1,087	1,495	2,488
Shop	2,366	928	0	3,294
Student Council	5,874	16,498	22,365	7
Theatrics	4,711	3,218	3,365	4,564
Transitions Class	347	3,026	2,922	451
Varsity Club	1	104	0	105
Yearbook	11,872	35,695	36,485	11,082
Sports Boosters	23,896	51,581	55,721	19,756
Total High School	\$ 111,336	\$ 182,289	\$ 215,208	\$ 78,417

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

FIDUCIARY FUND TYPES  
AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE  
YEAR ENDED JUNE 30, 2006

	BALANCE 7/1/2005	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2006
Elementary - Morley				
Library	\$ 147	\$ 6,774	\$ 6,735	\$ 186
Kindergarten	2,069	748	2,173	644
First Grade	627	811	840	598
Second Grade	2,197	1,337	2,082	1,452
Third Grade	1,733	792	1,400	1,125
Fourth Grade	3,449	0	1,346	2,103
Student Assistance	236	0	5	231
Student Council	36	1,091	1,091	36
Morley Parent Group	4,941	33,300	26,993	11,248
Odyssey of the Mind	1,057	0	1,057	0
Miscellaneous	1,895	7,899	8,463	1,331
Total Elementary - Morley	\$ 18,387	\$ 52,752	\$ 52,185	\$ 18,954
Elementary - Stanwood				
Lunch and Milk	\$ 31	\$ 27,216	\$ 27,247	\$ 0
Kindergarten	559	667	1,204	22
First Grade	0	155	155	0
Third Grade	18	301	300	19
Fourth Grade	262	209	252	219
Stanwood Parent Group	4,371	29,305	25,502	8,174
PTO Fundraiser	5,846	45,572	51,388	30
Invent America	107	200	252	55
Miscellaneous	525	8,119	8,050	594
Library	480	7,001	6,634	847
Student Assistance	417	0	0	417
Student Council	3	0	0	3
Total Elementary - Stanwood	\$ 12,619	\$ 118,745	\$ 120,984	\$ 10,380

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

FIDUCIARY FUND TYPES  
AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE  
YEAR ENDED JUNE 30, 2006

	BALANCE 7/1/2005	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2006
Middle School				
General	\$ 1,115	\$ 0	\$ 0	\$ 1,115
Student Council	688	1,891	715	1,864
Academic Boosters	254	1,652	233	1,673
Chips	9,128	38,302	37,284	10,146
Ecology Club	(41)	14,843	8,962	5,840
Classroom Supplies	829	0	0	829
Miscellaneous	1,586	2,402	2,018	1,970
Interest	476	418	25	869
Parent Group	4,633	9,120	8,143	5,610
Library	1,187	5,656	4,989	1,854
Recycling Club	1,075	278	58	1,295
Fifth Grade Field Trip	7,422	5,727	10,498	2,651
Sixth Grade Field Trip	2,784	4,330	5,701	1,413
Seventh Grade Field Trip	434	3,282	1,731	1,985
Eighth Grade Field Trip	1,052	2,691	2,637	1,106
Drama Club	538	479	595	422
Total Middle School	\$ 33,160	\$ 91,071	\$ 83,589	\$ 40,642
Total	\$ 175,502	\$ 444,857	\$ 471,966	\$ 148,393

MORLEY STANWOOD COMMUNITY SCHOOLS

MORLEY, MICHIGAN

SCHEDULE OF 2005 TAX ROLL

YEAR ENDED JUNE 30, 2006

	RATE IN MILLS	TAXABLE VALUATION	TAXES LEVIED	TAXES RETURNED DELINQUENT	TAXES COLLECTED
<u>GENERAL FUND</u>					
MECOSTA COUNTY	18.00				
Aetna Township		\$ 13,583,827	\$ 244,509	\$ 52,548	\$ 191,961
Austin Township		19,317,208	347,710	13,490	334,220
Big Rapids Township		1,209,538	21,772	4,526	17,246
Colfax Township		2,138,568	38,494	7,532	30,962
Deerfield Township		7,086,946	127,565	15,755	111,810
Mecosta Township		21,733,077	391,196	33,447	357,749
NEWAYGO COUNTY	18.00				
Big Prairie Township		3,802,391	68,443	12,000	56,443
Goodwell Township		29,308	524	0	524
MONTCALM COUNTY	18.00				
Winfield Township		2,986,964	53,765	1,453	52,312
Totals		<u>\$ 71,887,827</u>	<u>\$ 1,293,978</u>	<u>\$ 140,751</u>	<u>\$ 1,153,227</u>
<u>DEBT RETIREMENT FUNDS</u>					
MECOSTA COUNTY	7.00				
Aetna Township		\$ 38,345,399	\$ 268,418	\$ 46,834	\$ 221,584
Austin Township		36,886,536	258,206	22,722	235,484
Big Rapids Township		5,146,854	36,028	3,903	32,125
Colfax Township		6,949,346	48,645	4,090	44,555
Deerfield Township		29,328,241	205,298	26,425	178,873
Mecosta Township		57,540,767	402,785	35,916	366,869
NEWAYGO COUNTY	7.00				
Big Prairie Township		8,868,201	62,077	9,449	52,628
Goodwell Township		157,241	1,101	0	1,101
MONTCALM COUNTY	7.00				
Winfield Township		7,000,836	49,006	3,478	45,528
Totals		<u>\$ 190,223,421</u>	<u>\$ 1,331,564</u>	<u>\$ 152,817</u>	<u>\$ 1,178,747</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1995 School Building and Site Bonds		
<u>PURPOSE</u>	For erecting and furnishing a new high school building and a bus garage; erecting and furnishing additions to the Morley and Stanwood elementary schools and partially remodeling and refurnishing school buildings, including the existing high school for middle school purposes; equipping school buildings for technology; reconstructing the existing athletic facilities at the new high school and developing and improving sites.		
<u>DATE OF ISSUE</u>	November 1, 1995		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year		
<u>AMOUNT OF ISSUE</u>	\$ 15,700,000		
<u>AMOUNT REDEEMED</u>			
Bonds Defeased	\$ 11,850,000		
Redeemed Prior to Current Year	3,250,000		
Redeemed During Current Year	<u>600,000</u>	<u>15,700,000</u>	
<u>BALANCE OUTSTANDING</u> - June 30, 2006		<u>\$</u>	<u>0</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1999 Refunding Bonds
<u>PURPOSE</u>	To refund a portion of the 1995 bonds to take advantage of lower interest rates.
<u>DATE OF ISSUE</u>	March 16, 1999
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 9,000,000
<u>AMOUNT REDEEMED</u>	
Redeemed Prior to Current Year	\$ 265,000
Redeemed During Current Year	<u>50,000</u>
	<u>315,000</u>
<u>BALANCE OUTSTANDING</u> - June 30, 2006	<u><u>\$ 8,685,000</u></u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2006		\$ 201,391	\$ 201,391	
May 1, 2007	4.15%	256,391	201,391	\$ 55,000
November 1, 2007		200,250	200,250	
May 1, 2008	4.25%	255,250	200,250	55,000
November 1, 2008		199,081	199,081	
May 1, 2009	4.35%	254,081	199,081	55,000
November 1, 2009		197,885	197,885	
May 1, 2010	4.40%	257,885	197,885	60,000
November 1, 2010		196,565	196,565	
May 1, 2011	4.35%	806,565	196,565	610,000
November 1, 2011		183,298	183,298	
May 1, 2012	4.45%	968,298	183,298	785,000
November 1, 2012		165,831	165,831	
May 1, 2013	4.50%	950,831	165,831	785,000

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2006

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2013		148,169	148,169	
May 1, 2014	4.55%	933,169	148,169	785,000
November 1, 2014		130,310	130,310	
May 1, 2015	4.60%	915,310	130,310	785,000
November 1, 2015		112,255	112,255	
May 1, 2016	4.65%	897,255	112,255	785,000
November 1, 2016		94,004	94,004	
May 1, 2017	4.47%	879,004	94,004	785,000
November 1, 2017		75,556	75,556	
May 1, 2018	4.75%	860,556	75,556	785,000
November 1, 2018		56,913	56,913	
May 1, 2019	4.80%	841,913	56,913	785,000
November 1, 2019		38,072	38,072	
May 1, 2020	4.85%	823,072	38,072	785,000
November 1, 2020		19,036	19,036	
May 1, 2021	4.85%	804,036	19,036	785,000
		<u>\$ 12,722,232</u>	<u>\$ 4,037,232</u>	<u>\$ 8,685,000</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1998 School Improvement Bonds (Durant Settlement)
<u>PURPOSE</u>	For the purpose permitted in Section 1351(a) of Act 451, Public Acts of Michigan
<u>DATE OF ISSUE</u>	November 24, 1999
<u>INTEREST PAYABLE</u>	May 15th of each year
<u>AMOUNT OF ISSUE</u>	\$ 149,055
<u>AMOUNT REDEEMED</u>	
Redeemed Prior to Current Year	\$ 53,829
Redeemed During Current Year	<u>584</u>
	<u>54,413</u>
<u>BALANCE OUTSTANDING - June 30, 2006</u>	<u><u>\$ 94,642</u></u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
May 15, 2007	3.490%	\$ 10,466	\$ 3,303	\$ 7,163
May 15, 2008	3.490%	10,467	3,053	7,414
May 15, 2009	3.490%	10,467	2,794	7,673
May 15, 2010	3.490%	10,467	2,526	7,941
May 15, 2011	3.490%	10,467	2,249	8,218
May 15, 2012	3.490%	10,467	1,962	8,505
May 15, 2013	3.490%	49,393	1,665	47,728
		<u>\$ 112,194</u>	<u>\$ 17,552</u>	<u>\$ 94,642</u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	2003 Refunding Bonds
<u>PURPOSE</u>	To refund a portion of the 1995 bonds to take advantage of lower interest rates.
<u>DATE OF ISSUE</u>	October 27, 2003
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 3,045,000
<u>AMOUNT REDEEMED</u>	
Redeemed Prior to Current Year	\$ 100,000
Redeemed During Current Year	<div style="display: flex; justify-content: space-between;"> <span>55,000</span> <span>155,000</span> </div>
<u>BALANCE OUTSTANDING</u> - June 30, 2006	<div style="display: flex; justify-content: space-between;"> <span>\$ 2,890,000</span> </div>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2006		\$ 40,671	\$ 40,671	
May 1, 2007	2.25%	710,671	40,671	\$ 670,000
November 1, 2007		33,134	33,134	
May 1, 2008	2.63%	713,134	33,134	680,000
November 1, 2008		24,209	24,209	
May 1, 2009	3.00%	709,209	24,209	685,000
November 1, 2009		13,934	13,934	
May 1, 2010	3.25%	708,934	13,934	695,000
November 1, 2010		2,640	2,640	
May 1, 2011	3.30%	162,640	2,640	160,000
		<u>\$ 3,119,176</u>	<u>\$ 229,176</u>	<u>\$ 2,890,000</u>

**MORLEY STANWOOD COMMUNITY SCHOOLS**

**MORLEY, MICHIGAN**

**SINGLE AUDIT**

**JUNE 30, 2006**

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SINGLE AUDIT  
YEAR ENDED JUNE 30, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

July 17, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education  
Morley Stanwood Community Schools  
Morley, Michigan

COMPLIANCE

We have audited the compliance of Morley Stanwood Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Morley Stanwood Community Schools major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Morley Stanwood Community Schools' management. Our responsibility is to express an opinion on Morley Stanwood Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morley Stanwood Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Morley Stanwood Community Schools' compliance with those requirements.

In our opinion, Morley Stanwood Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## INTERNAL CONTROL OVER COMPLIANCE

The management of Morley Stanwood Community Schools' is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Morley Stanwood Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morley Stanwood Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated July 17, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Morley Stanwood Community Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
<b>U.S. Department of Education</b>								
Passed Through Michigan Department of Education (M.D.E.)								
ECIA Title I - Educationally Deprived								
Project No. 051530-0405	84.010	\$ 473,946	\$ 69,535	\$ 465,765	\$ 8,181	\$ 77,716	\$ 0	\$ 0
Project No. 061530-0506	84.010	501,638	0	0	498,025	414,371	83,654	0
Total	84.010	\$ 975,584	\$ 69,535	\$ 465,765	\$ 506,206	\$ 492,087	\$ 83,654	\$ 0
Handicapped Preschool & School Program								
Project No. 060440-SPSR	84.027	\$ 4,130	\$ 0	\$ 0	\$ 4,130	\$ 4,130	\$ 0	\$ 0
Safe and Drug Free Schools and Communities								
Project No. 052860-0405	84.186	\$ 12,654	\$ 435	\$ 12,654	\$ 0	\$ 435	\$ 0	\$ 0
Project No. 062860-0506	84.186	12,882	0	0	10,406	10,447	(41)	0
Total	84.186	\$ 25,536	\$ 435	\$ 12,654	\$ 10,406	\$ 10,882	\$ (41)	\$ 0
Title V - LEA Allocation								
Project No. 050250-0405	84.298	\$ 9,880	\$ 173	\$ 9,880	\$ 0	\$ 173	\$ 0	\$ 0
Project No. 060250-0506	84.298	6,812	0	0	6,812	6,812	0	0
Total	84.298	\$ 16,692	\$ 173	\$ 9,880	\$ 6,812	\$ 6,985	\$ 0	\$ 0
Title II D - Technology Literacy Challenge Grant								
Project No. 054290-0405	84.318	\$ 9,104	\$ (74)	\$ 8,304	\$ 800	\$ 726	\$ 0	\$ 0
Project No. 054290-0506	84.318	2,941	0	0	2,941	2,941	0	0
Project No. 064290-0506	84.318	9,358	0	0	5,401	5,690	(289)	0
Total	84.318	\$ 21,403	\$ (74)	\$ 8,304	\$ 9,142	\$ 9,357	\$ (289)	\$ 0
Comprehensive School Reform Demonstration Program								
Project No. 041870-0405	84.332	\$ 86,100	\$ (4,084)	\$ 47,704	\$ 38,396	\$ 34,312	\$ 0	\$ 0
Project No. 051870-0506	84.332	115,000	0	0	92,721	89,831	2,890	0
Total	84.332	\$ 201,100	\$ (4,084)	\$ 47,704	\$ 131,117	\$ 124,143	\$ 2,890	\$ 0
Title II A - Improving Teacher Quality								
Project No. 050520-0405	84.367	\$ 90,274	\$ 6,944	\$ 90,274	\$ 0	\$ 6,308	\$ 636	\$ (636)
Project No. 050520-0506	84.367	32,901	0	0	32,901	32,901	0	0
Project No. 060520-0506	84.367	98,409	0	0	94,752	89,317	5,435	0
Total	84.367	\$ 221,584	\$ 6,944	\$ 90,274	\$ 127,653	\$ 128,526	\$ 6,071	\$ (636)
Total Passed Through M.D.E.		\$ 1,466,029	\$ 72,929	\$ 634,581	\$ 795,466	\$ 776,110	\$ 92,285	\$ (636)

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
Passed Through Mecosta-Osceola Intermediate School District (I.S.D.)								
IDEA Transition Grant								
Project No. 060490-TS	84.027A	\$ 1,129	\$ 0	\$ 0	\$ 1,129	\$ 1,129	\$ 0	\$ 0
IDEA Flowthrough Grant								
Project No. 060450-0506	84.027A	\$ 15,000	\$ 0	\$ 0	\$ 15,000	\$ 15,000	\$ 0	\$ 0
Homeless Children and Youth	84.196A							
Project No. 062320-0506		\$ 2,407	\$ 0	\$ 0	\$ 2,407	\$ 2,407	\$ 0	\$ 0
Total Passed Through I.S.D.		\$ 18,536	\$ 0	\$ 0	\$ 18,536	\$ 18,536	\$ 0	\$ 0
<b>Total U.S. Department of Education</b>		\$ 1,484,565	\$ 72,929	\$ 634,581	\$ 814,002	\$ 794,646	\$ 92,285	\$ (636)
<b>U.S Department of Health and Human Services</b>								
Passed Through Mecosta-Osceola Intermediate School District (I.S.D.)								
Medicaid Outreach								
Project No. None	93.778	\$ 2,455	\$ 0	\$ 0	\$ 2,455	\$ 2,455	\$ 0	\$ 0
<b>U.S Department of Homeland Security</b>								
Passed Through Michigan State Police, Emergency Management Division								
2003 State Homeland Security Grant Program, Part II Equipment								
Project No. None	97.004	\$ 651	\$ 0	\$ 0	\$ 651	\$ 651	\$ 0	\$ 0
<b>U.S Department of Agriculture</b>								
Passed Through Michigan Department of Education								
Child Nutrition Cluster								
National School Lunch Program								
Section 4 - Total Servings - 051950 and 061950	10.555	\$ 38,402	\$ 0	\$ 0	\$ 38,402	\$ 38,402	\$ 0	\$ 0
Section 11 - Total Servings - 051960 and 061960	10.555	205,491	0	0	205,491	205,491	0	0
Total	10.555	\$ 243,893	\$ 0	\$ 0	\$ 243,893	\$ 243,893	\$ 0	\$ 0
National School Lunch Breakfast Program								
051970 and 061970	10.553	\$ 72,722	\$ 0	\$ 0	\$ 72,722	\$ 72,722	\$ 0	\$ 0
Total Child Nutrition Cluster		\$ 316,615	\$ 0	\$ 0	\$ 316,615	\$ 316,615	\$ 0	\$ 0
Food Distribution								
Entitlement Commodities	10.550	\$ 26,864	\$ 0	\$ 0	\$ 27,023	\$ 27,023	\$ 0	\$ 0
<b>Total U.S. Department of Agriculture</b>		\$ 343,479	\$ 0	\$ 0	\$ 343,638	\$ 343,638	\$ 0	\$ 0
<b>Total Federal Financial Assistance</b>		\$ 1,831,150	\$ 72,929	\$ 634,581	\$ 1,160,746	\$ 1,141,390	\$ 92,285	\$ (636)
					(B)	(C)	(D)	

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2006, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Federal Revenues from Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 1,160,110
Adjustment to prior year Title II A	<u>636</u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ <u><u>1,160,746</u></u>

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Grant Section Auditor's Report Dated June 30, 2006		\$ 1,105,348
Add Items Not on Grant Section Auditor's Report:		
Amounts Received as Pass Through from		
Intermediate School District		
Homeless Children and Youth	\$ 2,407	
IDEA Transition Grant	1,129	
IDEA Flowthrough Grant	15,000	
Medicaid Outreach	2,455	
Amounts Received as Pass Through from		
Michigan State Police		
Homeland Security Grant	651	
Amounts Received as Payments in Kind		
Food Distribution Program		
Entitlement Commodities	<u>27,023</u>	48,665
Less Non-Federal Payments Reported on the Grant Section Auditor's Report:		
School Breakfast Program - State Funds		<u>(12,623)</u>
Current Year Receipts (Cash Basis) per Schedule of Expenditures of Federal Awards		\$ <u><u>1,141,390</u></u>

(D) Adjustments

The prior year accrued revenue was adjusted down by \$636 due to a change in the grant award amount for Title II A – Improving Teacher Quality.

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CERTIFIED PUBLIC ACCOUNTANTS

July 17, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education  
Morley Stanwood Community Schools  
Morley, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morley Stanwood Community Schools as of and for the year ended June 30, 2006, which collectively comprise the Morley Stanwood Community Schools basic financial statements and have issued our report thereon dated July 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Morley Stanwood Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect Morley Stanwood Community Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-A.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described in B-a not to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Morley Stanwood Community Schools in a separate letter dated July 17, 2006.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Morley Stanwood Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

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MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Finding 2005-a (from the 2004/2005 fiscal year)

The District has a limited number of people involved in the accounting function due to financial constraints in allocating resources to this activity. This condition hampers the ability of the District to adequately segregate duties to enhance internal control.

The District is aware of this limitation and continues to explore cost effective measures to improve this internal control limitation.

This finding is repeated for the current fiscal year.

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**A. Summary of Auditor's Results**

***Financial Statements***

Type of auditors' report issued: Unqualified

Material weakness(es) identified: \_\_\_\_\_ Yes        X   No

Reportable condition(s) identified that are not considered to be material weaknesses?   X   Yes      \_\_\_\_\_ No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes        X   No

***Federal Awards***

Internal control over major programs:

Material weakness(es) identified: \_\_\_\_\_ Yes        X   No

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes        X   No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes        X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Improving Basic Programs
10.553 and 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes        X   No

MORLEY STANWOOD COMMUNITY SCHOOLS  
MORLEY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**Findings and Questioned Costs – Basic Financial Statements Audit**

2006 - A

Reportable Condition:

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition noted above was not considered to be a material weakness.

Corrective Action Plan

Inadequate segregation of duties.

With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District and Superintendent will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

**Findings and Questioned Costs - Major Federal Award Programs Audit**

None

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CERTIFIED PUBLIC ACCOUNTANTS

July 17, 2006

To the Board of Education  
Morley Stanwood Community Schools  
4700 Northland Drive  
Morley, Michigan 49336

As a result of our audit of the financial statements of the Morley Stanwood Community Schools for the year ended June 30, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the School District.

### **Budgeting**

The District currently does an excellent job formulating and monitoring the annual budget function. The Michigan Department of Education is working towards various policy adjustments in regards to budget violations and are considering retroactive implementation of these policies to the 2004-2005 and the 2005-2006 fiscal years.

Specifically, the Department will be focusing on a couple of significant areas as it relates to the General Fund.

1. Total Expenditure violations that exceed 1% of the Total Expenditures budget.
2. Total Other Financing Uses violations that exceed 1% of the Total Other Financing Uses budget.

A budget violation would include incurring expenditures in excess of the approved appropriation, ending the fiscal year with a deficit fund balance or adopting a budget that would result in a deficit fund balance.

The Department is also considering that a violation for the 2005-2006 fiscal year may also include a situation where the District did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved.

These proposed policy adjustments will place a renewed importance on the need to monitor the budget process very closely.

We recommend the District review the 2006-2007 budget to make sure that actual revenues will be greater than budgeted revenues, that actual expenditures by function will not be greater than appropriated and that a negative fund balance is not budgeted.

**Athletic Activities Internal Controls**

The District should consider methods to strengthen its internal controls over revenues received from admissions. We have suggested certain low cost accounting techniques to the business office related to this topic and urge the District to consider implementation of these additional controls.

**Debt Funds**

In May 2006 the final bond payment was made on the 1995 School Building and Site Bonds. The remaining fund balance should be transferred to the Refunding Bond Debt Retirement Fund. In addition, there are interfund liabilities to the general fund in the three debt funds that should be paid as soon as possible.

**Athletic Fund**

For the year ended June 30, 2006, there were two athletic fund bank accounts there were recording all there transactions in one general ledger account on the computer. This greatly increases the difficulty in reconciling the accounts on a monthly basis. We recommend there is a separate account number used in the general ledger for each bank account.

**Internal Controls**

During the course of our audit of the basic financial statements of the Morley Stanwood Community Schools, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements:

- (a) The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties, and we note this item here only to maintain the Board of Education's awareness of this limitation in their internal controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We wish to take this opportunity to thank the Board for again awarding this firm the audit assignment of the District, and the administration and staff for their cooperative spirit and assistance in helping us fulfill this audit assignment. If you have any questions relative to the above comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*